

2006  
**Business  
Tax Guide**

Washington State Department of Revenue

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# Feeling A Little Overwhelmed?

Today's rapidly changing business climate is a challenge. We understand that your time and resources are stretched, without worrying about a looming tax return deadline.

Relax, and give E-file a try.

Filing online is faster, easier, far more accurate than paper, and it offers several payment options. E-file let's you file anytime, from anywhere with an Internet connection.

Tour all the features of E-file at <http://dor.wa.gov>. Click on the E-file icon, and watch the short video. Or, just sign up! It only takes a few minutes.

**Get connected at [dor.wa.gov](http://dor.wa.gov)**



**Need help? We're here to walk you through, weekdays from 8 a.m. to 5 p.m. Call 1-877-345-3353**

# Congratulations on your New Business Venture!

The Washington State Department of Revenue has designed this guide to help you get off to a good start as a new business. It will introduce you to our services and help you better understand your state tax obligations.

Nearly three-quarters of the state funds used for basic education, higher education, human services, and natural resources come from state taxes. The largest percentage of those funds come from the business and occupation, retail sales, and use taxes – taxes reported by business owners and remitted to the Department of Revenue.

Because Washington's tax system relies on voluntary compliance, the quality of life and services we enjoy depend on everyone paying their fair share. The high voluntary compliance rate of Washington State excise taxpayers, estimated at 94 percent, is the shared success of a cooperative effort between taxpayers and the Department of Revenue.

Just as business owners are responsible for reporting and paying state taxes, we have a responsibility to give you the information and assistance you need to correctly report and pay your taxes. We take that responsibility seriously.

To help you understand how to report, the Department provides a variety of information services, including Internet services, toll free telephone and one-on-one assistance, tax consultation visits, and letter rulings. Business Outreach workshops are held on a regular basis throughout the state to help business owners learn the basics of Washington State taxes. The free workshops will help you understand your tax reporting responsibilities, as well as the tax reporting classifications, deductions, sales tax collection, and recordkeeping requirements.

The following information provides a general overview of Washington's tax structure, as well as information relevant to completing the excise tax returns. If you have questions or need help, please call or visit one of our local offices. You may also refer to the "Service Directory" on page 15 of this guide for information on the Department of Revenue's taxpayer education programs and telephone numbers to call for assistance.

**Get Set for  
Success!**



Visit our web site at:  
<http://dor.wa.gov>

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## Chapter 1 Registration Requirements

Most persons conducting business activities in the state of Washington are subject to this state's tax registration and reporting requirements. However, certain small businesses may be exempt from registering and filing tax returns with the Department of Revenue.

**You must register** with the Department of Revenue if:

- your business is required to collect retail sales tax,
- you are a buyer or processor of specialty wood products,
- or**
- your business is required to pay any other taxes or fees to the Department of Revenue.

**You do not need to register** with the Department of Revenue if:

- your gross income is less than \$12,000 per year under both the business and occupation tax and the public utility tax
- and**
- you are not required to collect or pay any tax or fee to the Department of Revenue.

If you are required to register your business **you must complete a Master Application**. Upon completion, you will receive a business license from the Department of Licensing. This license includes your Unified Business Identifier (UBI) number and Department of Revenue endorsement (tax registration number).

Your tax registration number is a unique number assigned only to your account. In most cases, your tax registration number is the same as the nine-digit UBI number. This same number is used by the Department of Licensing and Office of the Secretary of State and, if you have employees, the departments of Employment Security and Labor and Industries.

**Note:** If you have multiple locations or businesses, you may have more than one tax registration number.

### Do I need to register with other state agencies?

When businesses open in Washington they are often required to register with multiple state agencies. For instance, businesses with employees must register for industrial insurance with the Department of Labor and Industries, and for unemployment insurance with the Employment Security Department. Even if you don't have to register with the Department of Revenue you may still be required to fill out a Master Application and register with other agencies.

If your business meets all of the criteria (listed at left) for not registering with the Department of Revenue you must still fill out a Master Application if your business plans to hire employees or register a trade name.

### Where do I file the Master Application form?

The Master Application is available online at the Department of Licensing's web site: <http://dol.wa.gov/forms/700028.htm> or by calling 1-800-647-7706.

The Master Application form can also be filed at any Department of Revenue office (see back page) or by completing and mailing the form to Department of Licensing (see page 17 ).



## Chapter 2 Account Changes

Please notify the Department to report changes to your account.

- **If you sell or go out of business**, complete a final excise tax return and pay all taxes due within 10 days of the closing date. Note the date of closure and new owner's name on your final excise tax return. The purchaser of the business must apply for a new license in their own name.
- **If your mailing address**, business location, or business activity changes, contact us immediately to ensure the mailing of your return to the proper address and that your account information is correct.
- **If your business ownership changes**, you must contact the Department of Revenue. A change in ownership or legal organization (that is, from one

sole proprietor to another, from sole proprietor to a partnership, a change from proprietor to a corporation, or a merger) requires a new registration.

*You must close your current account and complete a Master Application to apply for a new business license.*

- **If your trade name or corporate business name changes**, you must notify the Department. For trade name changes, complete a Master Application. A new business license

will be mailed to you. Corporate name changes should be filed through the Secretary of State's office.

- **If you add business locations**, complete a Master Application. Indicate if the new location should be consolidated with the existing account or if a separate tax registration number should be issued. A separate business license is required for each business location and must be clearly displayed.

**Note:** To update your account information, including closing your account, visit our web site at <http://dor.wa.gov> and click on Contact Us, call 1-800-647-7706 or visit your local Revenue office.

### How do I change my Department of Revenue account from a sole proprietorship to a corporation?

Changing the structure of a business to a corporation requires the filing of Articles of Incorporation with the Secretary of State in addition to a new Master Application for all other agencies.

## Chapter 3 Basics of the Business & Occupation, Sales and Use Taxes

Washington State does not have a corporate, unitary, or personal income tax. However, the majority of Washington businesses are subject to three major taxes, either administered or overseen by the Department of Revenue. Following are basic descriptions of these taxes and how to report them. This is general information only. For explanations on specific laws and their application to your business refer to the Washington rules and laws on our web site.

### What are the major taxes administered or overseen by the Department of Revenue?

- Business and occupation tax
- Retail sales tax
- Use tax
- Public utility tax

## Business & Occupation (B&O) tax

The business and occupation tax is imposed on persons engaged in business activities in Washington. The B&O tax is computed by multiplying the tax rate by the amount of gross receipts, gross volume of sales, or other taxable amounts. No deductions are allowed for labor, materials, or any other cost of doing business.

### B&O exemptions

Although most business activities are subject to the B&O tax, there are a few major exceptions:

- The rental of real estate over 30 days or sale of real estate is not subject to B&O tax. However, interest received on real estate contracts is taxable under the Service and Other Activities classification of the B&O tax.
- Farming is not taxable. "Farming" means raising crops and livestock on one's own land for sale at wholesale. If a farmer sells a product at retail, that sale is taxable under the Retailing classification of the B&O tax.
- Fruit and vegetable processing. An exemption is made for persons who manufacture fresh fruit and vegetables by canning, freezing, processing, or dehydrating, and who sell such products on a wholesale basis for transport out-of-state.
- Power, water, and gas companies, and carriers by air, water, rail, and motor are taxable under various classifications of the public utility tax, instead of the B&O tax.

The classification and rate of the B&O tax are based on the type of business activity. A business may perform more than one type of activity. For instance, a floor covering store may sell carpet directly to homeowners for their use (a retail sale) and may also sell carpet and tile to construction companies that resell the items to the home buyer (a wholesale transaction). In such cases, the business must report and pay B&O tax under each of the appropriate classifications.

The most common classifications of the B&O tax are:

**Retailing:** Selling (or renting) goods and certain services to persons who will not resell the goods and services to others. Retailing generally includes those services performed on property, such as construction and repair. It also includes lodging, landscape maintenance, physical fitness, extended warranties, and many other services. Retailing does not include services provided by lawyers, doctors, accountants, beauticians, and janitors. (Contractors should refer to the Construction Tax Guide for specific information.)

**Wholesaling:** Selling goods and certain services to persons who will resell them to others. If you are a wholesaler, you must receive and retain a completed resale certificate from each buyer. (See page 5 regarding resale certificates.)

**Manufacturing:** Making articles, substances, or commodities (in Washington State) for the manufacturer's own use or sale as tangible personal property.

**Service and Other Activities:** Services and activities not taxed under any other classification are taxed under the Service and Other Activities classification. Sales commissions, interest on installment payments, and late charges are taxed under this classification. This classification is also where lawyers, doctors, accountants, beauticians, and janitors report their income.

**I make very little profit on my sales of goods and services. Can I deduct the amounts paid for subcontract labor, materials, and supplies?**

No. The business and occupation tax is a tax on gross receipts. The tax "pyramids," in that each separately organized business must report its own gross receipts without any deduction for amounts paid to others, or for any other expenses whatsoever. Also, the tax is imposed without regard to profit. The B&O tax may apply even if the business recognizes no profit.

**I provide a combination of product sales and services. Can I report all income under one classification?**

No. Each source of income must generally be accounted for separately and reported under the classification that applies to each separate activity. Interest charged on late payments, for example, must be reported separately from the sale of products.

**Where can I find a complete list of B&O tax classifications?**

The entire list, with descriptions, can be found on our web site, <http://dor.wa.gov>. Click on "Doing Business," then click "Filing."



## Retail sales tax

Transactions subject to the retailing B&O tax are generally also subject to the retail sales tax. However, businesses making retail sales are typically subject to the retailing B&O tax even when their customer is not required to pay the retail sales tax (e.g., unprepared food products sold at a grocery store). A business must collect sales tax on the selling price unless they receive a resale or other exemption certificate. Services subject to the retail sales tax include: improving or repairing real or personal property (such as buildings, equipment, and automobiles); landscaping (including lawn/garden maintenance); and amusement and recreation businesses.

### Other taxes

Specific types of taxes may apply depending on the nature and location of the sale. The following taxes apply to certain locations or business activities.

Classification	Rate
Regional Transit Authority Tax	.004
King County Food & Beverage Tax	.005
Rental Car Tax	.059 – .097
Special Hotel/Motel Tax	.010 – .050
Convention/Trade Center Tax	.028 – .070

Unlike the B&O tax, the buyer, not the seller, pays the sales tax. The seller, however, has the obligation to collect the tax from the buyer and remit it to the Department of Revenue. The funds are considered to be held in trust for the state until they are reported and remitted.

### The seller is liable to the Department for sales tax whether or not it is collected.

Businesses pay the retail sales tax on the purchase or rental price of items for their own use, such as supplies or equipment, which will not be resold or used as an ingredient in producing a product for sale. Similarly, when a business purchases a retailing-type service for its own use, it must pay sales tax on the purchase price. The rate of the sales tax varies depending on the location where the sale occurs. This is because there are two components of the sales tax – the state tax rate and local tax rate. The state sales tax rate is currently 6.5 percent (.065). Local sales tax rates range from 0.5 to 2.1 percent (.005 to .021).

### Resale certificates

A resale certificate is a written statement signed by a buyer that says the purchase is for resale in the regular

course of business without use by the buyer. It also requires acknowledgment that the buyer may be assessed a 50 percent penalty of sales tax due for misusing the certificate. The buyer must indicate what kind of business he or she is in and the kind of goods or services that are being purchased. When a seller accepts a resale certificate, the seller is relieved of the responsibility of collecting sales tax.

For instance, a grocery store may present a resale certificate to a paper products wholesaler when it purchases paper towels for resale. The wholesaler would not charge the grocery store sales tax. When the grocery store sells the paper towels to its customers, it collects sales tax.

### What is the difference between a service that is taxed as a retail sale and one that is not?

Services performed on personal and real property are usually taxed under the Retailing classification of the B&O tax and are also subject to the retail sales tax. This includes car repair, house painting, landscape maintenance, and similar activities. Both labor and materials are subject to the business and occupation tax and retail sales tax.

Under the law, certain other services are also taxable under the Retailing classification of the B&O tax and are subject to the retail sales tax. These include automobile parking and towing, credit bureau services, lodging, physical fitness services, and others.

Personal services including, but not limited to, lawyers, doctors, accountants, beauticians, and janitors are not subject to the retail sales tax. These services are reported under the Service and Other Activities classification of the B&O tax.

If you have any questions about how you should report your taxes, please call or write the Department for clarification.

The grocery store should not present resale certificates to vendors for items that it consumes. Examples of items that the store should pay sales tax on include shelving, signs, and cash registers.

Income from sales using resale certificates should be reported under the Wholesaling classification of the B&O tax. Sellers should retain buyers' completed resale certificates in their business records for five years.

You may download the resale certificate from the Department's web site at <http://dor.wa.gov>. Click on "Forms."

**Residents of the following states may qualify for the non-resident exemption:**

Alaska  
American Samoa  
Newfoundland and Labrador  
Colorado  
Guam  
Commonwealth of Northern Mariana Islands  
Delaware  
Puerto Rico  
Nova Scotia  
Montana  
Virgin Islands  
Northwest Territories  
New Hampshire  
Alberta  
Nunavut  
Oregon  
New Brunswick  
Quebec (Yukon Territory)

For more information, see ETA 2014.

**Sales tax rates**

Generally, the local retail sales tax rate to be charged is the rate where the retail outlet is located or at the place of sale. For example, if the customer purchases an item in a local store and takes delivery at the store, the store rate applies. If the same person purchases the item and has it delivered to their house in a different area, it is still the store rate which applies if the goods are delivered from the store location. For sales of goods, the local tax is determined by the place **from which** delivery occurs.

When construction is being performed or tangible personal property is installed, the local rate to be charged is the rate where the construction or installation takes place. Washington Administrative Code (WAC) 458-20-145 provides additional information on determining local tax rates. To access the Washington Administrative Code (WACs), Revised Code of Washington (RCWs), and Excise Tax Advisories (ETAs), visit <http://dor.wa.gov>. Click on "Laws and Rules."

Tax rates and codes for each locality are listed in the *Tax Return Information and Local Sales and Use Tax Rates and Changes Flyer*. You may also access the Department's Geographic Information System (GIS) at <http://dor.wa.gov>.

**Is sales tax collected if goods purchased within Washington are delivered outside of this state?**

Not if tangible personal property is delivered outside of Washington. The property must be shipped directly to the out-of-state location.

**Should I collect sales tax from all nonresidents?**

It depends. The law allows a sales tax exemption on sales to certain nonresidents. The exemption applies to sales of goods for use outside of Washington and is only available to residents of states or provinces that impose a retail sales tax of less than three percent.

Sales of meals, lodging, or other retail services consumed in Washington **do not qualify for exemption**.

Sellers are not required to honor the tax exemption. Those that do must verify and document the customer's out-of-state address by checking one piece of photo identification. A customer may also complete a *Buyers' Retail Sales Tax Exemption Certificate*. This is available on our web site. Click on "Forms."

## Use tax

Use tax should be reported when individuals or businesses purchase, lease, or use a taxable item (product or service) without paying sales tax. Articles purchased for use in this state are subject to sales or use tax, **but not both**. Use tax is calculated based on the value of the item, which is normally the purchase price including freight and handling charges. The rates for the sales and use tax are the same. However, use tax, unlike sales tax, is due at the rate where you first use the item in Washington. Different rules apply for local use tax than local retail sales tax. (See the local sales tax discussion on page 6.)

Unless you make a purchase for resale, you will usually pay sales tax. However, situations occur when Washington sales tax may not be collected by the seller, including when taxable items are purchased from an out-of-state vendor, acquired when an existing business is purchased, or when inventory is converted to consumer use. In such cases, use tax is due. Some other common examples are: business supplies acquired through catalog merchandising; Internet purchases of office equipment, canned software, or promotional items (“give-aways”); and magazine subscriptions/publications purchased from publishers outside Washington.

It is sometimes misunderstood that purchases from vendors outside this state are not subject to tax. In fact, any item acquired outside Washington for use within this state is subject to Washington’s use tax.

You may use the amount of sales or use tax legally paid in another state as a credit against the amount of use tax due in Washington. Use tax should be reported on the excise tax return.

### **I own an auto repair shop and I purchased some used equipment from another business. Do I owe use tax?**

Yes. If the seller did not collect retail sales tax from you, you should report under “use tax” on your next excise tax return.

### **I traded (bartered) my services in exchange for some new equipment. I paid no money for the new equipment. Do I owe use tax since no sales tax was paid?**

Yes. Use tax is due on the equipment, based on the value of the services provided. If the value of services cannot be shown, then the fair market value of the property acquired will be used to determine the use tax due.

### **I hired some casual labor to paint my office. I supplied the paint. Do I owe use tax on the amount paid for the painting labor?**

Yes. To put it simply, all amounts paid for improvements to real or personal property are reportable as use tax if sales tax has not been paid. This includes amounts paid for labor only.

## Chapter 4 Ways to File Your Tax Return

### Electronic Filing (E-filing)

Electronic Filing is the preferred method for filing your tax return. It is a free and secure service that lets you prepare and file your excise tax return electronically any time of the day.

E-file allows you to:

- Customize your excise tax return.
- Calculate taxes due and flag potential errors and avoid costly mistakes.
- Choose one of several payment methods – Electronic Funds Transfer (EFT), E-check, credit card, or paper check.
- Save postage and the chance of your return being lost or delayed in the mail.
- File your return early and choose the date you want your payment withdrawn (with EFT).

See our web site for information on how to register for E-file. Click on the E-file logo.

**For more information on E-filing**, visit our web site or call toll free 1-877-345-3353.



### Paper Returns

Paper excise tax returns and filing instructions are available for businesses to report income depending on the type of business activity performed. Newly registered businesses are assigned a reporting frequency and excise tax return type based on information provided on the Master Application.

Paper returns are sent to taxpayers depending on filing frequency. However, all excise tax returns, instructions, and addenda can be found on our web site. Click on “Forms.”

#### Reporting No Business Activity

Businesses must file a tax return each reporting period even if they did not conduct business or receive income. There are three ways to report no business activity:

**1. By phone**, call 1-800-647-7706.

- At the greeting, enter “111” to start the process.
- Enter your tax registration number and follow the instructions given.

**2. By E-file**, go to <http://dor.wa.gov> and log on. (If you are not already registered to file electronically, click on “Register Now” and follow the instructions.)

- Enter your logon ID and password.
- Under the heading “Outstanding returns,” click on the return you need.
- Follow the instructions given.
- Click “Submit.”

**3. By paper**, fill in the “No Business Activity” box on the excise tax return. Please sign and date the return and include a daytime phone number. Make a copy for your files and mail the original return in the self-addressed envelope provided.

**For more information on completing returns on paper**, call the Telephone Information Center at 1-800-647-7706. E-filers do not receive paper excise tax returns.

**For more information on reporting no business activity**, you may call the Department of Revenue’s 24 hour automated attendant to file a “no business” excise tax return at 1-800-647-7706. **Have your UBI/tax registration number available.**

## Chapter 5 Tax Filing Information

The following are some important facts you should know about filing your tax return:

### Due Dates

The due date for your excise tax return corresponds to your assigned reporting frequency:

- Monthly Filers** The return is due by the 25th day of the month following the close of the reporting month. (For example, the January return is due by February 25.)
- Quarterly Filers** The return is due by the last day of the month following the close of the quarter. (For example, the Quarter 1 return is due by April 30.)
- Annual Filers** The return is due by January 31 of the following year. (For example, the 2004 return is due by January 31, 2005.)

### Accounting Methods

Unless you keep your books on a cash basis, taxes must be paid on all sales made during the reporting period even if you have not received payment.

### Return Frequency

When you fill out a Master Application to register your business in Washington, you describe your business activities and estimate your annual income, before expenses. Your estimated annual gross income is then used to estimate your annual tax liability. Your reporting frequency is then assigned based on your annual tax liability and type of business.

### Rounding

You may round off to the nearest whole dollar by dropping amounts that are less than 50 cents and rounding up amounts that are 50 cents or more. For example, if your gross sales for the reporting period total \$12,123.48, enter \$12,123.00 on the tax return. If they total \$23,334.50, enter \$23,335.00. Round all amounts, even the calculated tax due.

### Changing Your Frequency

In certain circumstances, the Department may approve more frequent reporting. If you wish to file excise tax returns at a different frequency than the one you have been assigned, mail your request along with an explanation to:

Taxpayer Account Administration  
Washington State Department of Revenue  
PO Box 47476  
Olympia, WA 98504-7476

You can also request a frequency change by calling the Telephone Information Center at 1-800-647-7706. WAC 458-20-22801 provides specific information on reporting frequency.

### What are the types of accounting methods?

#### • Cash basis reporting:

Gross income is reported on the excise tax return in the period you *receive* the payment, regardless of when you deliver the goods or services.

#### • Accrual basis reporting:

Gross income is reported on the excise tax return in the period in which you *deliver* the goods or services, regardless of when you receive the payment.

#### Note to Contractors:

Report based on the terms of the contract when you become entitled to payment.

(See WAC 458-20-197 and WAC 458-20-199.)

### Why was my filing frequency changed?

Your filing frequency is based on the overall tax liability of your business. This increases the ability of both the Department and the business to efficiently process information. Tax liability guidelines used to assign a reporting frequency are as follows:

More than \$4,800 per year	Monthly
Between \$1,050 and \$4,800 per year	Quarterly
Less than \$1,050 per year	Annually

### Do I need to file on time if I didn't receive my excise tax return?

Yes. Not receiving your return does not relieve you from reporting and paying your taxes by the due date.



If the due date falls on a weekend or legal holiday, then the next business day is the due date for the return. To avoid penalties, don't file late.

The Department mails excise tax returns approximately four to six weeks before the due date. Your assigned due date is printed on the excise tax return that you receive. If you file by mail, you must mail your excise tax return on or before the due date to avoid late filing penalties. This is determined by the postmark date on the envelope.

### Notice for those business assigned "Active Non-reporting" status

Even if you don't owe taxes, it is your responsibility to maintain proper business records. You must notify the Department if your business exceeds the requirements for Active Non-reporting status. (See requirements at right.) At the time your business exceeds the threshold, call the Business Registration section at (360) 902-7180, your local Department of Revenue office, or the Telephone Information Center at 1-800-647-7706. Your account will be assigned a reporting frequency and excise tax returns will be sent to you for reporting taxes. Failure to notify the Department may result in late filing and payment, causing penalties and interest to be assessed.

#### Amended return sample cover letter:

"We have submitted an amended return for the January 2003 period. We discovered that our retailing and retail sales tax gross figures were overstated by \$3,000 because we erroneously included some December 2002 figures with our current month's figures. Please send us a refund check for overpayment. If you have any questions, we can be reached at (xxx) xxx-xxxx."

### Correcting a Previously Filed Return

If you find that you have been reporting taxes incorrectly, you can file amended returns or schedules to correct the error. If additional taxes are due, the amount should be remitted along with the returns, including any applicable interest and penalties. If taxes have been overpaid, a refund will be issued or a credit will be applied against your future taxes. To amend your return, take the following steps:

1. Make or print a copy of the return you need to correct.
2. At the top, write "Amended Return" in large letters.
3. Draw a single line through any incorrect information and write the correct information on the side or above. (**Please use black ink.**)
4. Recalculate your "Totals."
5. Attach a cover letter explaining why you are submitting an amended return, with a telephone number where you can be reached during business hours.

6. Mail the amended return and cover letter to:

Taxpayer Account Administration  
Washington State Department of Revenue  
PO Box 47476  
Olympia, WA 98504-7476

**Note:** The Department may only honor refunds dating back four calendar years prior to the year in which the refund request is made. (See WAC 458-20-229.)

### What should I do if I don't owe taxes?

If you are assigned a reporting frequency, **you must file a return**. If you do not owe taxes because you did not conduct any business, refer to "Reporting No Business Activity" on page seven.

If you have been assigned an Active Non-Reporting status, you do not need to file a return.

### Who is eligible for Active Non-reporting status?

To be eligible, you must meet **all** of the following requirements:

- Your business activity does not require the collection of retail sales tax.
- Your annual gross proceeds of sales, gross income, or value of products is less than \$28,000 for all B&O tax and/or \$24,000 for public utility tax classifications.
- Your business owes no other tax or fee to the Department of Revenue.

### How do I file amended returns for multiple periods?

You can file in one of two ways. For either way, please attach a letter explaining the changes made.

1. When amending multiple periods, you can use a spreadsheet listing each period and the correction to each period.

**or**

2. Photocopy each incorrect return. Write "Amended Return" across the top, make all necessary changes and recalculate your tax due.

## Hints – Avoid Late Payments

Paying your taxes late can cause penalties and interest to accrue. Here are some suggestions to help prevent some unnecessary costs:



- File electronically through the Department's Electronic Filing System (E-file). (See the E-file information on page seven.)
- Set up a separate account for the retail sales tax (collected trust funds). Every time you collect sales tax, put the funds in the separate account. This way, you will not accidentally spend these funds and they will be available to remit with your tax return.
- Mark your calendar. It is your responsibility to ensure your excise tax return is postmarked by the due date.
- If you have any questions regarding liability, payment, returns, or other subjects, please contact us.

### What if I can't file or pay on time?

Contact your local Department of Revenue office right away.

There is a penalty for late payments on returns. The penalties assessed on late return payments are as follows:

**5 percent** after the due date until the last day of the month following the due date.

**15 percent** after the last day of the month following the due date.

**25 percent** after the last day of the second month following the due date and anything thereafter.

**5 percent additional penalty** applies to all assessments for underpaid taxes.

## Chapter 6 Recordkeeping

Keeping accurate and complete records makes the job easier when it's time to fill out excise tax returns and other reports. It also helps the Department of Revenue correctly determine your tax liabilities during an audit of business income, purchases, exemptions, and deductions.

The Department may use the records to determine if the business has reported and paid their taxes correctly. Such records must be kept for **five years**. Audits usually cover the past four calendar years, plus the current year through the end of the most recent quarter. Therefore, Washington taxpayers are responsible for keeping records for a period of five years. This includes both paper and electronic records.

In general, records are to be kept, preserved, and presented upon request of the Department that will demonstrate:

- The amount of gross receipts and sales from all sources, including barter or exchange transactions.
- The amount of all deductions, exemptions, or credits claimed through supporting documentation.

The records may include general ledgers, sales journals, together with all bills, invoices, cash register tapes, or other documents or original entry supporting the books of account entries. The records should include all federal and state tax returns, reports, and all schedules or work papers used in the preparation of tax reports or returns.

### Am I required to keep my electronic information in paper copy?

Not necessarily. All records must be kept for a period of five years, including electronic records. You may be asked to provide paper copies during an audit. The Department can generally verify your reported income and deductions through the use of electronic files.

Businesses should keep the following books and records:

- Washington State excise tax returns and work papers
- Federal income tax returns for the business
- Summary accounting records and source journals, such as the check register, general ledger, sales journal, general journal, cash receipts journal, and any other records you use to record income and expenses
- Sales invoices
- Purchase invoices (accounts payable, receipts)
- Depreciation schedules listing all assets acquired or disposed of during the audit period along with purchase or sales invoices for those assets
- Resale certificates for any wholesale sales
- Supporting documentation for all deductions and exemptions

## Chapter 7 Audit Information

### Audit Process

As a registered business, you may be selected for an audit. Audits are a routine procedure used to determine whether state excise taxes have been reported and paid correctly. The majority of businesses audited by the Department of Revenue are chosen using statistical methods.

In general, your records will be reviewed to verify proper tax reporting. You will also receive helpful instructions and information on how to fill out tax returns in the future. Our Agency is committed to working with you in a professional and cooperative manner.

An audit of your business activities will cover several major areas, including:

- **Gross Income:** verification of proper amounts and classifications reported on the return.
- **Deductions, credits, and exemptions:** verification of proper amounts, classifications, and documentation.
- **Purchases:** verification of retail sales or use tax paid on capital assets, consumable supplies, or articles manufactured for your own use.

Audit procedures and/or programs may include:

- Obtaining electronic files of the accounting records for the audit period.
- Random, non-statistical sampling of specific audit areas.
- Computer assisted audits using a statistical sampling technique. These are primarily used for large businesses.

### Is it sufficient to keep only summary records?

No. All original documents must be kept to support the summary records.

### What if my state and federal returns don't match?

There may be some legitimate differences (e.g., sales and rentals of real estate lasting more than 30 days are not taxable in Washington). All differences should be reconciled and maintained for your business records.

### What should I expect during an audit?

An audit by the Department of Revenue will normally cover the four preceding calendar years, plus the current year. The Department will review taxes, deductions, and exemptions reported on your excise tax return.

### Will the results of the audit be fully explained to me?

Yes. The auditor will discuss both the procedures used and the differences identified. You will have an opportunity to review the results and discuss them with the auditor before any assessment is issued.

## Chapter 8 Rights and Responsibilities

**Whether you are a business owner, home owner, nonprofit organization, or individual consumer,** you are also a Washington State taxpayer with specific rights and responsibilities. As a taxpayer, it is important to understand the laws regarding your rights, as well as your responsibilities.

By understanding your responsibilities, you can better comply with your tax obligations and avoid mistakes. By understanding your rights, you will be able to ensure that they are upheld and gain a better awareness of the many services the Department of Revenue offers.

In 1991, the Taxpayer Rights and Responsibilities law was passed. It provides the basic principles that form the foundation of the Agency's relationship with taxpayers – voluntary compliance, fairness, and uniform application. Department of Revenue employees are committed to treating you with fairness and upholding your rights.

### Taxpayer Rights

The Taxpayer Rights and Responsibilities law provides taxpayers with the right to many services and protections. These rights range from the most basic, such as the right to fair and courteous treatment, to specific actions you can take to resolve a tax issue.

#### **You have the right to a simple and prompt administrative process for tax refunds and credits.**

If you believe you have overpaid your taxes, you may request a refund or credit against your future tax liabilities. As long as the taxes were paid within four calendar years prior to your request and the overpayment is verified, the Department will issue a refund or credit. If you feel your request has been incorrectly denied and cannot resolve the disagreement, you may file an appeal. Refer to WAC 458-20-100 for more information on the appeals process.

#### **You have the right to timely, fair and equitable treatment with dignity and respect.**

The Department of Revenue is customer-focused. You can expect to receive courteous and professional treatment from Department staff. You should contact the employee's supervisor or the Taxpayer Advocate if you feel you have not received proper treatment.

#### **You have the right to accurate written information on reporting instructions, appeal procedures, refund claims and reasons for assessment.**

The Department strives to make tax information readily available. It does so by publishing important tax decisions, fact sheets on various taxes, the quarterly Tax Facts newsletter, special notices, legislative updates, administrative rules and excise tax advories.

### **What can I do if I feel my rights have been violated?**

If you cannot solve a problem through routine channels, you may contact the Department's Taxpayer Rights Advocate. See our web site at <http://dor.wa.gov> and click on "Contact Us." Then click on "Advocate."

Or, you may write to:

Taxpayer Rights Advocate  
Department of Revenue  
Taxpayer Services Division  
PO Box 47478  
Olympia, WA 98504-7478

Or call (360) 705-6714.

### **How can I get answers to my tax questions?**

For general tax questions, you can e-mail [communications@dor.wa.gov](mailto:communications@dor.wa.gov) or call 1-800-647-7706. You also can fax your question to (360) 705-6696.

If you have a complex tax question and would like a written letter ruling, see "How can I get a letter ruling?" on page 16.

**You have the right to public hearings on proposed rules.**

When proposing new rules or amendments, the Department holds hearings that encourage public input. Interested citizens may offer their comments by mail, fax or telephone.

**You have the right to review and appeal assessments, business registration revocations and adverse rulings.**

You may ask for an independent review if the Department makes an unfavorable decision. For example, if an audit or other review of your records results in an assessment or decision with which you do not agree, you have the right to ask for a review of that assessment or decision.

If a filed tax warrant remains unpaid after 30 days, the Department may hold an administrative hearing to revoke the certificate of registration or master license, making it illegal to conduct business activities in Washington. If your registration is revoked, you may ask the Appeals Division to review that decision. You also have the right to appeal an unfavorable ruling by the Appeals Division to the Washington State Board of Tax Appeals. Requests should be sent to:

Washington State Board of Tax Appeals  
Appeals  
PO Box 40915  
910 5th Ave SE  
Olympia, WA 98504-0915  
(360) 753-5446

**You have the right to remedies when statutes and rules are found to be unconstitutional.**

The Department of Revenue must administer the tax laws as they are written by the Legislature. However, if the courts invalidate a law, the Department will promptly comply and administer any remedies, including tax refunds and credits.

**You have the right to confidentiality of financial and business information.**

The Department will not release the information contained on your tax returns. By law, only the following information about your business may be released to the public: name and address, business entity type, Unified Business Identifier (UBI) number/Tax Registration Number, Standard Industrial Classification (SIC) code, North American Industry Classification Code System (NAICS), and opening and closing dates. The law does allow the Department of Revenue to share confidential information with authorized federal and state agencies such as the Internal Revenue Service (IRS).

**How do I formally appeal a decision?**

A review is started by filing a petition with the Department's Appeals Division. Petitions for appeal must be sent to the division within 30 days of the date the decision was made. Contact:

Department of Revenue  
Appeals Division  
PO Box 47460  
Olympia, WA 98504-7460  
(360) 570-6140

**What can I appeal?**

You may appeal any action of the Department. This includes letter rulings and written reporting instructions, in addition to assessments for additional taxes and revocation notices. Again, appeals must be filed within 30 days after the date of the departmental action.



## Taxpayer Responsibilities

The Department of Revenue can better serve you as long as you have a basic understanding of your responsibilities. As a taxpayer in Washington State, you have the responsibility to:

- Register your business with the Department of Revenue.
- Know your tax reporting obligations and seek instructions when you are uncertain.
- Keep accurate and complete business records.
- File returns and pay taxes in a timely manner.
- Ensure the accuracy of the information entered on your tax returns.
- Substantiate claims for refund.
- Notify the Department of Revenue and pay taxes promptly when closing a business.

### How can I best ensure my tax return is accurate?

Use E-file! See page 8 for more information.

## Chapter 9 Service Directory

The Department of Revenue offers many services to make reporting your taxes as convenient as possible. The following list contains a sampling of the Department's services.

### Internet – <http://dor.wa.gov>

Our web site offers a wide variety of information and resources for your business, including:

- **Electronic Filing (E-file):** File and pay taxes via the Internet.
- **Business Information Update (Your Account):** You can notify us online if your business has moved, closed, or changed activities.
- **Local Offices:** Find telephone numbers, office hours, and directions to a local office near you.
- **Tax Rate Lookup Tool (GIS):** Find the correct code and tax rate for specific locations.
- **Business Records Database:** Look up public information on businesses registered in Washington State. Public information includes business name, open and close dates, Standard Industrial Classification (SIC) code, North American Industry Classification Code System (NAICS), UBI/Tax Registration Number, and owner type. This information is available for non-commercial purposes only.
- **Publications and Forms:** Find our tax guides, fact sheets, reports, news releases, and forms.
- **Report Fraud:** Report Washington State tax and license fraud using our online form. You may also link to other state agencies for information on fraud cases and consumer protection.

### Can I make suggestions on how to improve the Department's web services?

Absolutely. We welcome your comments and ideas. Go to our web site (<http://dor.wa.gov>), click on "Contact Us" and then click on the link under "Web Assistance & Suggestions."

- **Research Statistics:** To access research publications, data on tax collections, tax-related statistics on business activity by industry and geographical area, and other statistical information about the state's tax structure, click on "Statistics and Reports."
- **Laws and Rules (Taxpedia):** Search our online database for Department of Revenue rules and laws. Also research tax-related laws, rules, advisories, administrative decisions, and court cases through Taxpedia.
- **Secure Messaging:** Exchange confidential information with Department staff and feel safe that your message will not be intercepted. You can also receive binding tax rulings electronically.

## Telephone and One-on-one Assistance

Assistance in registering businesses, completing tax returns, and responding to questions can be requested by calling the Telephone Information Center at 1-800-647-7706 or by visiting your local Revenue office. The local office locations and phone numbers are listed on the back of this publication.

- **Tax Express:** Get answers to your most common tax questions 24 hours a day, seven days a week, by calling the Tax Express prerecorded information system. To access Tax Express, call 1-800-334-8969.
- **Fast Fax:** Access the most requested forms and publications 24 hours a day, seven days a week. The Department's Fast Fax feature allows you to select from about 100 forms, publications, and administrative rules and have them transmitted directly to your fax machine. To use the system, dial 1-800-647-7706.

## Tax Consultation Visits

At your request, a Revenue staff member will meet with you to explain how state taxes apply to your specific business activities. This service is strictly voluntary and takes about two hours. If you are interested in a tax consultation visit, please call the Telephone Information Center at 1-800-647-7706 or contact your local office.

## Taxpayer Advocate

For assistance in understanding and accessing your rights in working with the Department of Revenue, call the Taxpayer Advocate at (360) 705-6714.

### How can I get a letter ruling?

To receive a written letter ruling on a complex tax question, you must identify your business and include all pertinent facts surrounding the issue. Send your request to:

Taxpayer Information &  
Education  
Department of Revenue  
PO Box 47478  
Olympia, WA 98504-7478

You will receive a response within 10 business days. You may also fax your request to (360) 705-6655.

# Appendix

## Other agencies

### Find everything you need through one web site

Simplify your life! Over a dozen state agencies have come together to provide you with a single, easy-to-use location linking the resources you need to do business in Washington State.

Go to [access.wa.gov/business](http://access.wa.gov/business) and you're connected to a wide variety of necessary tools and information. Doing Business at Access Washington is a web site designed exclusively to make it easier and more efficient for you to accomplish licensing, permitting, paying taxes and more.

It's your single gateway to the state services and information you'll need as you build and grow your business. [Access.wa.gov/business](http://Access.wa.gov/business) - bookmark it today!

### Department of Licensing

Certain business activities require special registration or agency authorization. These include selling liquor, cigarettes and lottery tickets. The Master Application contains general information on special requirements and how to obtain them. You can receive information about the licenses you may need for your business from the Department of Licensing.

You may also order a customized licensing packet. The packet includes information on licensing requirements, referrals to related federal, state, and local agencies, application forms tailored to your business type, and the booklet "Operating a Business in Washington State." The Department of Licensing also registers trade names for sole proprietorships and general partnerships. If you need a copy of your business license, contact the Department of Licensing.

### Labor and Industries

If you employ one or more persons, you must apply for industrial insurance coverage with the Washington State Department of Labor and Industries. Industrial insurance is not required for business owners, but those who want it can complete an application for employer coverage. To apply for industrial insurance or request more information, please look for the nearest Labor and Industries location under the government pages in the front of your telephone book.

### Employment Security

If you have any employees, you must also apply for unemployment insurance coverage with the Washington State Employment Security Department. For the office nearest you, refer to the government pages in the front of your telephone book.

### Secretary of State

Contact the office of the Secretary of State to file Articles of Incorporation or a Certificate of Limited Partnership if your business has either type of ownership. The Secretary of State also registers trademarks, as well as trade names for corporations and limited partnerships.



<http://access.wa.gov/business>

### Department of Licensing

Business and Professions Division  
PO Box 9034  
Olympia WA 98507-9034  
(360) 664-1400  
[http://dol.wa.gov/mls/  
buslic.htm](http://dol.wa.gov/mls/buslic.htm)

### Labor and Industries

Employer Services  
PO Box 44144  
Olympia WA 98504-4144  
(360) 902-4817  
<http://www.lni.wa.gov>

### Employment Security

Status Unit  
PO Box 9046  
Olympia WA 98507-9046  
(360) 902-9360  
<http://www.wa.gov/esd/>

### Secretary of State

Corporations Division  
PO Box 40234  
Olympia WA 98504-0234  
(360) 753-7115  
[http://www.secstate.wa.gov/  
corps/](http://www.secstate.wa.gov/corps/)

## Internal Revenue Service

If you pay employment taxes, such as industrial and unemployment insurance, you need to have a Federal Employer Identification Number (FEIN). In some special cases, businesses without employees may be required to obtain a FEIN. The Internal Revenue Service also offers workshops and other taxpayer education services.

## City and County Taxing Offices

If your city or county has business taxes and you are located within the city limits, you will need to register with the city taxing authority, such as the city auditor. Businesses located outside city limits should register with the county taxing authority, which may be the county clerk's office.

Also, remember to contact your county assessor as soon as your business opens. Businesses are required to report personal property - assets used in the operation of a business - to the assessor. Personal property includes furniture, office equipment, machines and supplies used in the course of doing business.

## Additional sources

The following agencies also offer tax-related information and business assistance:

Small Business Administration  
<http://www.sba.gov>  
 (206) 553-7310

Department of Community, Trade  
 and Economic Development  
<http://www.cted.wa.gov>  
 (360) 725-4000

## Internal Revenue Service

Information: 1-800-829-1040;  
 1-800-829-4933  
 Forms: 1-800-829-3676  
 Fax-on-demand: (703) 368-9694  
 Teletax (24 hour tax information):  
 1-800-829-4477  
<http://www.irs.ustreas.gov>

## Washington State Counties:

<http://www.mrsc.org/byndmrsc/counties.aspx>

Washington Cities and Towns:

<http://www.mrsc.org/byndmrsc/cities.aspx>



# Expand *your tax* Knowledge

Attend a Business Outreach Workshop

These workshops help new and existing businesses better understand Washington's tax structure.

For more information, check out our web site and on-line video:  
<http://dor.wa.gov/content/doingbusiness/workshops>





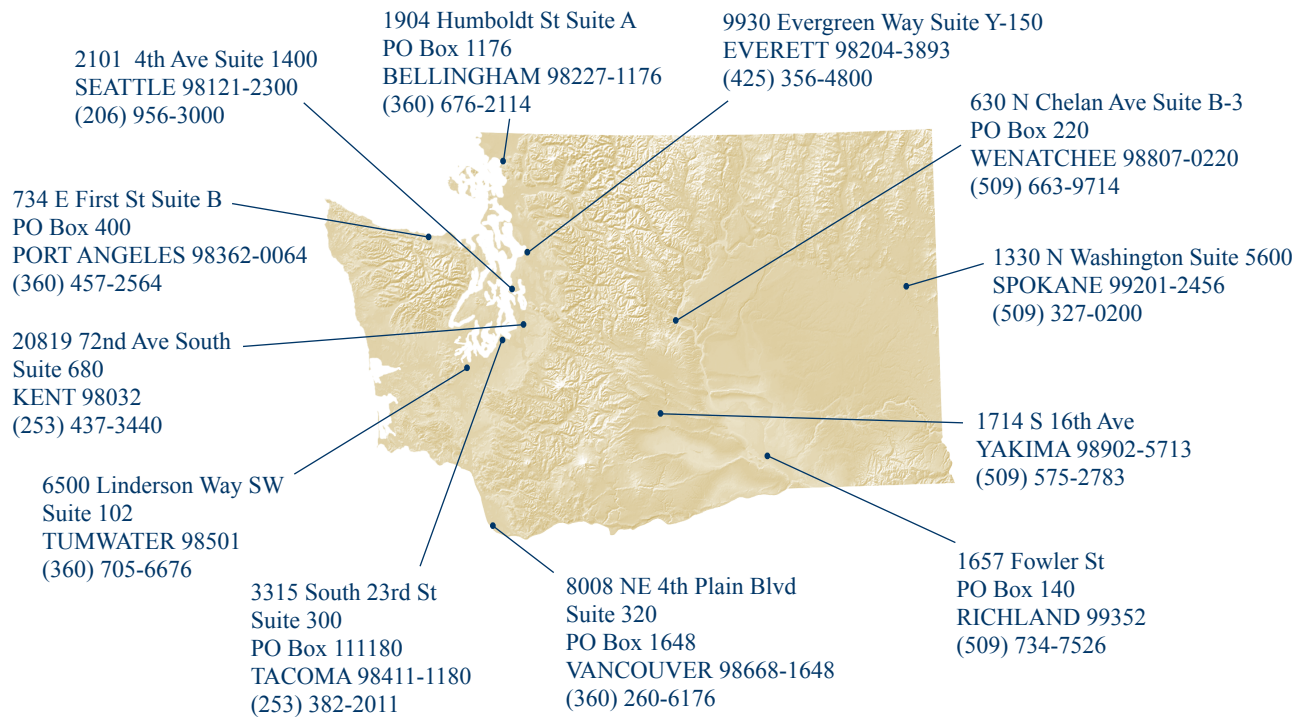
# Department of Revenue Taxpayer Assistance



Visit our web site at:

**<http://dor.wa.gov>**

## Local Office Locations



**Telephone Information Center**

**1-800-647-7706**

To inquire about the availability of this publication in an alternate format for the visually impaired, please call (360) 705-6715.

Teletype (TTY) users please call 1-800-451-7985.

